

POLICY STATEMENT REGARDING CRITERIA AND ISSUES RELATED TO RESIDENTIAL GROUP COMMON BONDS

Purpose

This policy statement contains details concerning the criteria to be used by the Department in reviewing an application by a credit union for a residential group common bond. Each credit union application must make its case to satisfy statutory requirements, safety and soundness criteria and the existence of mutual interest between persons sharing the proposed residential group common bond. The Department reserves the right to revise such policies as warranted to maintain standards of practice, parity and to preserve the safety and soundness of a state chartered credit union.

Criteria for a Well Defined Area

The criteria for a neighborhood, community or rural district must be well defined, in accordance with OCGA 7-1-630(b). A well defined area must be described in writing and delineated on a map.

The boundaries of a neighborhood typically will be defined by streets and roads, but may also be bounded by other delineations including boundaries of a municipality (such as the city limits) or other boundaries that reasonably demonstrate the end of one neighborhood and the beginning of another. A written description typically will include the names of streets or other delineations surrounding the neighborhood.

The boundaries of a community or rural district typically will be defined by streets and roads but may also be bounded by other delineations including boundaries of a town, municipality (such as the city limits) county or other boundaries that reasonably demonstrate the end of one community or rural district and the beginning of another. In many cases it may be more appropriate to describe the community or rural district by means of a map, rather than listing all delineations that comprise its border. If the written description is so limited, a well drawn map may be needed to readily facilitate a determination that a prospective member qualifies for membership based upon residence within a well-defined area being served.

The Department's definitions in the rule are based on "residence within" a well defined neighborhood, community or rural district, unlike the federal definition, which includes individuals who live, worship, work or attend school in such an area.

Criteria for Meeting the Definition of a "Neighborhood"

As provided in the Rule, a "Neighborhood shall mean a small part of a geographic unit considered in regard to its inhabitants or distinct characteristics. It will reflect unifying characteristics such as recreational, associational or social facilities or functions for residents.

A geographic unit for the purposes of this definition could be a municipality or county, therefore a "Neighborhood" would be a small part of such a unit. Indicators of unifying characteristics could include recreation centers or athletic facilities, social clubs or organizations, Neighborhood Associations or similar facilities or functions.

A "Neighborhood" meeting such a definition would have to demonstrate a viable residential group common bond based upon its size, its level of activity and based upon safety and soundness criteria related to the proposed area.

Criteria for Meeting the Definition of a "Community"

As outlined in Rule 80-2-8-.04, in order for an area to be considered a community, it must share certain criteria that tend to create a mutual interest (political, environmental, geographic or economic) or must share common

facilities or services that tend to create interaction or mutual interest. In making such a determination, the Department shall expect the applying credit union to demonstrate clearly by a preponderance of evidence that this criteria supports the definition of a community. The Department shall consider the approval of a community by the NCUA for a federal charter as evidence in making its determination for a Georgia state charter, so long as this is consistent with state law. Provided that the conditions contained within §7-1-634 have been complied with, including safety and soundness requirements, and provided each group being proposed meets the definition of a community as outlined above, the Department may consider an application for adding an additional community group. The burden of showing that a common bond exists within a community is on the applicant. The Department will carefully review the analysis performed by credit union management in making this assessment.

It must be demonstrated additionally that the credit union has adequate facilities and staffing to serve the residential group common bond that is being requested. The Department further reserves the right to establish such conditions as it determines to be appropriate, and may in particular establish a timetable for group additions or other appropriate conditions, particularly if there are concerns related to the size of the group being proposed or the impact upon the management of the credit union. Applications for multiple residential group common bonds will be individually evaluated and must satisfy all the criteria in this law, rules and this policy. A separate fee will apply to each residential group common bond application.

Criteria for meeting the Definition of a "Rural District"

As outlined in Rule 80-2-8-.04 (2) (d), a rural district could conceivably encompass a larger geographic area than a community and could include more than one county, if the area could be demonstrated to have certain commonalities of interest. These could include membership within agricultural, soil conservation, water districts, economic development zones or other pertinent criteria. Absent strong and compelling evidence of unifying characteristics, the inclusion of any part of a Metropolitan Statistical Area (MSA) will not be considered in a rural district.

Department Basis for Evaluating Criteria for a Residential Group Common Bond

The Department requires the applying credit union to demonstrate by the weight and accumulation of facts presented that a residential common bond exists that establishes unifying characteristics that tend to create interaction or mutual interest. The Department will review the volume and value of evidence in establishing the commonality criteria to meet the definitions for a neighborhood, community, or rural district common bond.

Safety and Soundness Criteria that apply to Requests for a Residential Group Common Bond

Credit unions are subject to safety and soundness criteria based on the financial and managerial capacity of the credit union to serve the proposed common bond, whether this is an employee, associational or a residential group. The Department will not approve any such applications, particularly for larger counties or rural districts, unless these criteria can be clearly demonstrated.

The following criteria shall be considered in determining the financial and managerial capacity of a credit union to support a request for a residential group common bond:

1. A CAMEL rating of "1" or "2" and a risk rating of "low" or "moderate" in all applicable categories was assigned at the most recent examination.
2. Any credit union receiving a CAMEL rating of "3" in any component area and a risk rating of "low" or "moderate" in all categories at its most recent examination shall be considered only after review of the following additional factors:
 - a. The underlying reasons for ratings outside the criteria in item 1 above.
 - b. The overall condition of the credit union and ability to support expanded activities

- c. Management's progress and commitment to improve such ratings; and
 - d. The prospects for improving performance and ratings in the near term.
3. A credit union receiving a CAMEL component rating in any category more severe than a "3" or having a risk rating of "high" in any category in its most recent examination may not apply for a residential group common bond based on residence in a well defined neighborhood, community or rural district.
 4. It is strongly recommended that credit unions with a Composite CAMEL rating of "3", not apply for any residential group common bond until the overall condition of the credit union is restored to a satisfactory level. The Department rarely approves such additions under these circumstances.
 5. There should be a demonstration in all applications for a residential group common bond that the credit union has a sufficient level and depth of management to meet the requirements of the residential common bond proposed.
 6. There should be a demonstration in all applications for a residential group common bond that the credit union has sufficient information technology resources and capacity to serve the residential group that is being proposed.
 7. A key component of the safety and soundness requirement for a neighborhood, community or rural district common bond group shall be the submission of a comprehensive business and strategic plan that addresses the following:
 - a. How the credit union intends to service the targeted neighborhood, community or rural district;
 - b. The financial services that will be provided to the targeted neighborhood, community or rural district;
 - c. A projection of the expected size and penetration into the target market over a three year period, to include an analysis of the market's current financial service providers;
 - d. The impact of the proposed addition upon credit union capital, property and equipment (including technology resources) and personnel resources;
 - e. The adequacy and sufficiency of fixed assets and data processing facilities to serve the proposed residential group common bond including sufficient resources to meet the expected levels of growth;
 - f. The effect upon management's ability to recognize, monitor and control the following risks:
 - i. Credit Risk – the risk of default on expected repayments of loans or investments and policies and procedures for collections.
 - ii. Interest Rate Risk – the risk that changes in market interest rates will negatively impact the income statement or balance sheet of the credit union.
 - iii. Liquidity Risk – the risk of an inability to fund the repayment of deposits and borrowings or meet lending obligations from available liquid assets.
 - iv. Transaction Risk – the risk of fraud or operational problems in transaction processing that results in an inability to deliver products, remain competitive and properly manage information and data.

- v. Compliance Risk – the risk of violations and non-compliance with applicable laws and regulations resulting in fines, penalties or damages.
 - vi. Strategic Risk – the risk of adverse business decisions through management actions or inactions that impact the competitiveness and viability of the credit union
 - vii. Reputation Risk – the risk of negative public opinion or perception leading to a loss of confidence and/or severance of business relationships.
- g. A comprehensive income statement budget and proforma balance sheet reflecting realistic financial, capital and operating goals for the next three calendar years beyond the year in which the residential group common bond expansion is requested.
8. In the case of a common bond request for a neighborhood, community or rural district, the credit union shall submit revised loan and collection policies and procedures that recognize the additional complexities of a residential group common bond.
9. In the case of a common bond request for a neighborhood, community or rural district, the credit union shall provide adequate policies related to asset/liability management, recognizing the additional complexities that could result from expanded lending and deposit taking activities.

Multiple Residential Group Common Bonds

The Department shall determine whether a credit union has adequately documented and supported an application for a residential group common bond, by reviewing its revised business plan, whether the credit union has the management and operational resources to support the proposed addition and whether the credit union has satisfied its current business plan and projections for serving its existing credit union membership.

Upon application for an additional residential group common bond, it shall be the expectation of the Department that the goal of the credit union is to serve the residential area that has already been approved by the Department. In applying for an additional residential group common bond, the credit union shall demonstrate that they are adequately serving their existing common bond groups, that they have the available management and operational infrastructure to properly serve the proposed group, that they meet all safety and soundness criteria contained within this policy statement and are not subject to any other criteria which would make the proposed addition unsound. While it is not mandatory that the credit union have an established branch in close proximity of the group being proposed, the credit union should detail in their application how they intend to serve the proposed group, through physical branches, shared branches, telephone, mail or electronic means. In all cases the addition being proposed should be consistent with the objectives of the Code contained in O.C.G.A. 7-1-3.

The Ability to Merge Credit Unions with Residential Group Common Bonds

Mergers between a credit union and another credit union serving a residential group common bond are permissible, subject to safety and soundness and statutory requirements. A credit union would have to meet the safety and soundness criteria for a merger and would be expected to demonstrate that it could reasonably serve the members of the current credit union and the members of the credit union being merged. So long as provided for in the plan of merger, the new field of membership will be comprised of the combination of groups of the two credit unions.

A residential common bond surviving a merger will be subject to the conditions of this Policy Statement. As specified in 7-1-668, future membership in the credit union shall be based on state law; therefore in the case of a neighborhood, community or rural district, membership shall be based on residence within an approved residential group.

Conversions

Conversion of a federal credit union to a state credit union will be done according to law. A federal credit union with a residential group common bond based membership may convert to a state credit union, but after conversion, state law will allow new members only if they “reside within” the residential area.

The Status of Underserved Areas based on Parity with Federal Charters

State law does not currently provide for the specific ability to add groups to the field of membership of a credit union based on it being an underserved area, as is currently the case with federal charters.

Residing within a geographic area that has in common a lack of access to financial services may be an indicator of a common bond. The area likely would have other economic commonalities. Credit unions are encouraged to look at these possible groups to determine whether sufficient evidence of mutuality exists to add such groups, thereby providing needed financial services to underserved groups.

Public Notification of applications to serve Residential Group Common Bonds

Although there are no statutory publication requirements for applications by a credit union to serve a common bond group, the Commissioner has determined that upon the adoption of Rule 80-2-8-.04 on residential group common bonds, it is in the best interests of the public and the financial services industry to be aware of the approval of any requests received from credit unions to serve a residential group common bond. Upon approval of a residential group common bond, the Department of Banking and Finance shall include the name of the credit union and a brief description of the neighborhood, community or rural district that has been approved in the next monthly Bulletin of the Department.